The New Generation Communications Company

NETWORK ip

September 30, 2004

Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

To Whom It May Concern:

Attached you will find the System Audit Report and Auditor's Letter of Certification for Network Enhanced Telecom, LLP for the payphone compensation audit required by the FCC under Section 64.1310(a)(1) of the CC Docket No. 96-128. This audit attest to the fact that as of July 1, 2004, the company had a system in place that is compliant with the new FCC rules.

The Company filed a Petition of Waiver on June 24, 2004 and was issued Confirmation Number: 2004624234776 in CC Docket No. 96-128.

Please file this audit of record with the FCC and provide a confirmation number if possible.

Thank you for your assistance and please call me should you have any questions.

Sincerely,

Toni Van Burkleo
Chief Financial Officer

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FINAL

Auditors Report: FCC Order 96-128

We have examined the accompanying description of the controls at Network Enhanced Telecom, LLP, dba NetworkIP, ("NIP") applicable to recordkeeping, reporting, and payment provided to payphone service providers serviced through the Company's platform. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of NIP's controls as it related to PSP compensation, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and (3) such controls have been in place since June 30, 2004. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls of NIP, presents fairly, in all material respects, the relevant aspects of NIP's controls that have been placed in operation since June 30, 2004. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that dial around compensation objectives, as documented in FCC Order 96-128 would be achieved if the described controls were complied with satisfactorily and third parties applied those aspects of internal control contemplated in the design of NIP's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the prior paragraph, we applied tests to specific controls, as listed in Section 4, to obtain evidence about their effectiveness in meeting the related control objectives during the period from April, 2004 to June 30, 2004. The specified control objectives, controls, and the nature, timing, and results of the test are listed in Section 5. This information has been provided to all interested parties. In our opinion, the controls that we tested are operating with sufficient effectiveness to provide material and reasonable assurance that the control objectives were achieved during the period between April 1, 2004 and June 30, 2004.

The relative effectiveness and significance of specific controls at NIP and their effect on assessments of control risk for PSPs are dependent on their interaction with internal controls, and other factors present at PSPs and PSP aggregators, as well as the internal controls of third parties involved in NIP's processing of PSP dial around compensation. We have performed no procedures to evaluate the effectiveness of internal control at any third party associated with this process.

The description of controls at NIP is as of June 30, 2004 and information about tests of the operating effectiveness covers the period from April 1, 2004 to June 30, 2004. Any projection of such information into the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specific controls at NIP is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in the processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for use by management of NIP, PSPs and other vendors of interest, the FCC in verification of fulfillment of Order 96-128, and the independent auditors associated with such organizations.

Sincerely,

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Section 1: Overview of Operations and Internal Control Features

Overview of Operations

Beginning on April 1, 2004, NIP entered into an agreement with Billing Concepts, Inc. ("BCI") to provide an outsourced solution to the record-keeping, validation and payment of Dial-Around Compensation requirements. To that end, much of the process described in the processing and handling of Dial-Around Compensation ("DAC") is internal to BCI and has been audited by independent auditors. While we may reference aspects from their report in describing the overall process, we have not audited these systems and processes, and are relying on the information provided and audited by BCI and their independent auditors.

DAC is the system whereby owners of payphones are compensated when a user places a calling card or other dial-around service to place a long distance call. Every time a person uses a payphone to place a long-distance call and dials a long-distance company other than the one assigned to the payphone, the dialed company must pay the payphone owner a fee. Payphone service providers and aggregators bill the SBR or LEC by providing a list of ANIs, and the LEC and SBR match those ANIs to call detail records (CDRs) from the platform, and pay on all calls that require compensation. Since payment is only due on completed, non-re-origination calls when dial around services are used, the carrier's CDR utility program captures all relevant data pertaining to whether the call requires DAC or not.

As a result of contracts NIP entered into with BCI beginning in April 2004, BCI will be providing reconciliation and payment services with regard to PSP compensation for NIP. As such, we have reviewed the report on internal controls verified by BCI's auditors, Padgett, Stratemann and Co, LLP. While we have not reviewed the internal controls at BCI, we note that they have been audited, and that we are relying on their internal controls over the processes that affect the accuracy of the PSP compensation services provided.

In the quarter under review, only one of NIP's nine inbound carriers used BCI's platform for processing, and all other carriers and their associated PSPs were reconciled and paid using in-house processes. We will perform procedures on both processes as it pertains to the accuracy, timeliness and completeness of the records for DAC. However, for subsequent quarters, all DAC is now being reconciled through the BCI's services.

General Operations

NIP sells switched minutes for prepaid calling cards to its customers, including LECs and other SBRs (switch based resellers) who want to offer these services to their customers. NIP serves as the resporg for the 800 number and assigns requested 800 numbers to its customers. The 800 numbers are then printed on cards and sold to end users. Thus, all the calls processed through NIP's platform are coinless calls, although both payphone and hotel phones are common service providers.

As a switch based reseller, NIP does not have any direct relationships with PSPs or PSP aggregators. All payphone owners with claims against the calls that are processed through the NIP platform invoice the payphone LEC or other SBR, who in turn invoices NIP for the number of calls tracked on their switch. NIP tracks all the calls that have gone through the NIP platform and prepares reports to indicate which ones are registered as completed and compensable. The LEC or SBR then invoices NIP for the calls at a slight margin. NIP reconciles the amount invoiced against completed and compensable calls tracked in their platform, and pays the LEC who in turn reimburses the PSP. Disputes with the PSP are generally handled by the LEC or other SBR.

Beginning in April, 2004, one of the nine carriers has begun to process DAC through NIP's third party contract with BCI, and as such, the PSP invoices BCI directly, who reconciles the ANIs provided to the ANI lists of the carriers and the call records provided by NIP, then reports to NIP for the payment due. Payment request is reviewed, approved, and wired to BCI, who in turn pays the PSPs. This will become the overarching process on a going-forward basis, and all nine carriers are using this process for invoices beginning third quarter, 2004.

General Reconciliation Process

NIP has allowed a third party, BCI to manage the PSP vendors, receive invoices relating to the BTNs under management by the various payphone providers and their associations, and submit invoices, or claim reports, to NIP for payment. The PSP submits their ANIs and invoices, if available, to BCI. Since NIP is an SBR, and not the LEC, they do not keep ANI records or databases; rather only provide call record detail to their LEC customers so that the LECs can reimburse their subscribing PSPs.

Each quarter, reports on CDRs are generated by NIP's platform, using parameters that ensure that all eligible compensation calls are accounted for. These reports generate CDRs that are flagged "1" in the payphone field, come in on carrier specific trunks, and have a 27, 70, or 29 in the infodigit ID field. 29 is an uncommon digit identifier since it indicates a prison payphone.

For BCI reconciliation

Payphone CDRs are sorted in an Informix database table called the *cdr_payphone_yyyymm table*. A file is sent to BCI on the 3rd of the month for the previous month's payphone CDRs. The calls sent to BCI by NIP match the following criteria:

1) The inbound carrier is one of those listed in the contacts file

2) The customer is not an exception customer as listed in NIP's exception list (see exception list discussion below)

The records are written to the file according to the format table required by BCI. The file is then compressed and put into another server with public internet access so that BCI can access the approved records via FTP on the 5th of the month.

BCI performs reconciliation on a quarterly basis, whereby they compare ANIs reported by the PSPs to the database of calls provided by NIP's platform reports, and validates the claims for payment by the PSPs. All ANIs provided by the PSPs is kept in a database with status and status codes, and are validated by the LECs.

The BCI reconciliation also has a potential fraud check in their system, currently set to 720 calls per ANI per month—any ANI reported that has in excess of this amount is pulled out as an exception and further investigation is undertaken.

Claim reports sorted into various spreadsheets by carrier, by check, and by submission are available and are submitted to the LEC/SBR, and once the carrier validates the report and the total, the agreed-upon amount is paid via wire transfer. BCI makes payment to the PSPs and aggregators accordingly.

For In-House reconciliation procedures

The CDRs used are also sorted into reports using the Informix program, and the payphone record reports are then sorted for individual carriers. As the PSPs invoice the carriers, the only database used to determine which ANIs belong to which payee are the carrier's list of ordered 800 numbers, and thus, responsibility for ANI validation lies with the carrier-customers exclusively. The CDR report is then totaled for the number of records per info digit per customer, and that number is used as the reconciled number for comparison and dispute against the carrier bill.

In general, the in-house procedure works on a total call record for a given process, and detail is not verified. However, most of the discrepancies between the carrier invoice and the CDRs stems from complete vs. incomplete calls. The invoices received from the carriers do not seem able to capture whether the calls were completed or not, and thus the reconciliation and support, if necessary, that is sent to the carriers results in a credit from the carrier in subsequent months.

In the itemization of current month charges, PSP coin-less call charges are identified under Payphone Surcharge – Dedicated Toll Free. 8 of 9 carriers invoice on a monthly basis, one carrier invoices on a weekly basis, whereby invoices are dated Monday and due by funds transfer on the following Wednesday. As of July, 1, 2004 this weekly carrier had also moved to the quarterly reconciliation process employed by BCI.

Processing Detail

NIP's Nortel DMS250 is a "dummy switch" and all call records are generated from the NIP platform. This platform routes, rates and records all the information pertaining to the call. CDRs are created real-time and then transferred into an Informix database. On the third of each month, Josh Owings, programmer, runs reports out of the NIP platform, sorted by carrier and date. These reports are delimited text files run in the Distributor Services Management System (DSMS) (reporting interface) from the platform. As PSP information is not directly related to the SBR, we note that disconnects and ANI

reconciliation are not the responsibility of NIP, and where necessary, BCI will reconcile the data related to ownership of ANIs between the invoices provided by the PSP and the LEC validating information. Appears reasonable.

Some of NIP's carrier-customers also use NIP to process some calls over their own carrier-owned payphones, and these are handled over segregated trunk groups. These carriers make up the exception list discussed above. For these call records, the carrier-customer maintains and provides NIP with a payphone database, and reconciles all payphone ANI's. Since these are that carrier's own payphones, the carrier does not bill NIP for DAC on these calls, but does take call records from NIP for billing to the end user. PSP compensation on these trunk groups may have info-digits of 27, 29 or possibly the old 07 for older payphones. Testing on this included reviewing the exception list and determining that PSPs are not included, and reviewing the logic used by the platform to ensure that compensable calls to PSPs are not removed from the database. The carrier gathers the raw call data on these trunks and performs their own reconciliation.

Data Integrity

Per Toni Van Burkleo, CFO, and Nichole Janner, Director of Platform Services, all CDRs have been kept since November 2001. Information related to CDRs is maintained live on the system for 13 months and archived after that time by being burned to CD and stored at the bank,. Per Nichole Janner, data integrity on these CDs has been recently tested as a result of a court subpoena. Backup data will be regularly tested by restoring it to an Informix database on an off-line archive server as a result of this audit.

Reconciliation Process Detail of DAC for PSPs-Third Party

For our understanding of the reconciliation process undertaken at BCI, we used the auditor's report of Padgett, Stratemann & Co., LLP, as submitted and included in our work papers.

The PSPs submit their ANI information directly to BCI. Aggregator files are processed to ensure that the PSPs are properly grouped by company number. PSPs are able to make claims against the current and prior 6 quarters.

BCI is responsible for validating the files coming in from the LEC and the PSPs, creating the databases and updating them for the new information and disconnect information each quarter. A utility program is used to process the disconnect files, then the LEC files and the PSP files (prior quarter changes are processed at the same time as the current quarter files). The processing creates reports, which are stored and archived to CD. Calls are sorted into categories by PSP and LEC, or SBR, and invalid claims, meaning ANIs without calls, and calls that are unmatched, are kept in suspense accounts in case the PSP makes a later claim on them.

At this point, ownership errors are identified and verified manually by BCI. Discrepancies in ANI reporting are attempted to be resolved first by comparing the data to prior quarter is used to try to identify the error. If the ANI is not located, it is reported to the PSP and updated to the payment information.

Once the errors have been corrected, ANI status report files are created for each PSP satisfying the reporting requirement to the PSP. An ANI Master List File is available, and several reports, including ANIs assigned to PSP IDs and names are generated from this Master File. NIP does not receive this file, although could use the file to validate current ANIs being processed in the CDRs.

At any time during the quarter, the SBR may submit new information relating to the ownership of certain ANIs, and they are incorporated into the quarter being processed and run against the prior 6 quarters, as noted above.

Call Records

NIP ensures the completeness and accuracy of the call records through their CDR gathering process.

NIP sells switched minutes for prepaid calling cards to their customers, including LECs and other SBRs (switch based resellers) who want to offer these services to their customers. These numbers are then printed on cards and sold to end users. Thus, all the calls processed through NIP's platform are coinless calls, although both payphone and hotel phones are common service providers.

Each access number that hits the platform is preprogrammed to a single customer's account. If an access number is dialed and the platform does not recognize it, it is not processed. We inquired as to whether an access number can be sent over from the Nortel switch without being programmed to a customer and those calls are reported as a non-assigned account, which is then researched.
All calls that originate on the carrier's network are routed to the NIP platform for termination to the dialed number.

If the number is programmed into the switch but unassigned to a customer, then it is absorbed into a house account. NIP itself assigns all 800 numbers to the carriers and programs them into the switch for the carrier, thus ensuring that all ANIs is included in the CDRs used for DAC and properly coded by carrier. The only numbers that appear in the house account are test accounts and employee or vendor numbers. Appears reasonable.

Per Nichole, the Nortel DMS 250 is a "dummy switch" and call records are processed through a proprietary platform for each CDR, the system generates fields to identify the origination and termination information on the call. These are set up through logic that is programmed into the NIP platform.

- The info digit field identifies what type of service is originating the call. 27, 70, and 29 are the proper identifiers for payphone services.
  The payphone compensation field determines whether or not the call is eligible for payphone compensation.
- Outbound or Completion Flag - Determines whether or not the call was completed in the platform In the old reconciliation process, the LEC invoiced NIP for any delivered calls, which are calls that pass through their switch, but could not

determine whether the call has been completed. Overall, billing disputes between the LEC and NIP were mainly a result of this delivered v. completed information, and NIP would solve the dispute by running a report on this information field Dial-Around - Determines whether the caller used a dial-around method to engage a different carrier via the equal access rules. 0 means no dial-around, thus no compensation is due, and whereby another digit signifies that the carrier was selected by the end-user.

- Re-origination flag, which indicates whether the call is an additional call being made on the same original dial, and for which payphone compensation is required only when the reoriginated call is the first completed call.

NIP's platform will attempt completion for up to 3 minutes before ending the call and making the determination that a call is incomplete.

Files are sent in BCI's pre-approved formats. Once validated by BCI, the files are backed-up to CD, and copied to the server, and processed.

When the call records have been processed and the invoice summary table has been updated, the processing clerk for BCI checks for fraudulent ANIs. A threshold of 720 calls per month per ANI triggers a fraudulent report and denies the PSP claim automatically. The responsibility for validating the call information lies with the PSP and the SBR.

The call records sent to BCI are then run against the ANI master database for the quarter, and the calls are allocated to PSP and LEC, as required. Quarterly reports are generated 65 days after the quarter close to indicating what is being paid out to the LEC on behalf of the PSPs.

The quarterly reports summarize call records processed into one of the following categories:

1) No Claim - reflects calls associated with ANIs recognized by the SBR and appearing on the call records, but not yet claimed as an ANI owned by a PSP.

2) Claim Validated – reflects calls processed by ANIs that appear on invoices from PSPs, have been validated by the BCI systems that those ANIs belong to that PSP.

3) Claim Not Validated – reflects calls processed by ANIs belonging to PSPs that have requested compensation from users for the applicable quarter, but the SBR has not reported ownership information for these ANIs.

4) Suspense - reflects calls associated with ANIs involved in an ownership dispute. Ownership disputes result when the SBR reports different information related to ownership than the PSP, or when multiple PSPs claim the same ANI and the SBR information does not validate any of the claims.

5) Potential Fraud – reflects calls associated with ANIs that exceeds the 720 call threshold for the number of calls per month. Thresholds may be adjusted by NIP via call request.

When PSP payments are approved by NIP via the report, the payment schedule files are used to create a spreadsheet that is sent to BCI's accounting department to process payment. The files are also used for BCI to create payment summary reports that are sent to the PSPs with their checks.

Once payments are sent, the payment detail files are used to mark the payment date in the call record entries and stored in the Invoice Summary tables, thus recording which calls have been paid upon and which remain outstanding due to ANI validation dispute or fraud. NO CLAIM calls are accrued by NIP.

When a quarter becomes ineligible for payment request, unpaid call records are marked as Expired on the Invoice Summary report, and all unclaimed call records are expired by the program.
Quarterly information is stored for two years by BCI. Stored databases at BCI are analyzed periodically to ensure that the data remains intact. The platform records have been stored by NIP since inception, and need to be analyzed to ensure that they remain intact.

Disputes

If a PSP or aggregator has a dispute about the payment made, the PSP can request that its original file (or a newly submitted file) be checked in greater detail. BCI will try to resolve the issue by manually checking the reports, and if BCI's management cannot resolve the dispute, then the information is passed on to the LEC to try to obtain additional information.

NIP historically had disputes that resulted from billing of incomplete calls, and resolved them in the following way: Sent the LEC the complete payphone reports with complete and incomplete CDRs. Under the BCI management, this type of dispute is non-existent, since the PSP bills by ANI, and BCI never sees records on incomplete calls.

For prior quarters still under management at NIP, NIP continues to manage based on the billing issues relating to transfer of DAC responsibility. However, per discussion with NIP personnel, there are no outstanding issues as of June 30, 2004 that is not simply standard credit delays.

Internal Controls

Control Environment and Organizational Chart

Platform responsibilities lie with Nichole Janner, Director of Platform Services, who programs the system to locate info digits and other information relevant to the DAC system. Only 12 people have access to the platform and the Informix databases, but these are limited, user-profiled, and secure. 3 people have full –control root-access, a System Admin, a database administrator and a Sr. Programmer. Two additional programmers in Austin have access to change payphone logic.

Reports are gathered and sent to BCI via Josh Owings, NIP programmer, who sends them to BCI and sends a summary to Gary Ford, Carrier Billing Manager, who reviews the reports before sending them out to ensure that they appear materially accurate and that there are no large or unusual aspects to the report before they are sent. If there are discrepancies, Josh is asked to rerun the report, and then the report is reviewed again manually.

At this point, the remainder of the processing of PSP compensation is processed by BCI and is reliant on their internal control structure.

The payment detail report is received within 65 days after the quarter end, is reviewed by Gary Ford and is both trended against prior quarters for reasonableness and reconciled against summary monthly reports on payphone records collected. After review, it is approved by Toni Van Burkleo, CFO, and this approval is communicated to BCI and payments are made to the PSPs by the end of the month. As approval and preparation of reporting information are kept separate, there appears to be little room for internal employee fraud outside of collusion. Invoice was due on September 17, so that the PSP can be paid by September 30, 2004. Appears reasonable.

We note that the BCI reconciliation process and the overall integrity of the DAC system rely on several internal controls to ensure the integrity of the system. These controls are communicated and complied with by NIP in the following:

General Contract and Regulatory Requirements

Per the agreement between BCI and NIP, each company and their representatives are responsible for maintaining compliance with laws, regulations, tariffs, and other general requirements in the course of doing business. NIP has provided documentation that they recognize these requirements and understand their responsibilities to comply with them. At the same time, the integrity of the compensation system requires that BCI remains in compliance with all their attestations under the agreement. We also obtained and reviewed an executed copy of the agreement, which indicates each party understands their obligations. Appears reasonable.

Access Controls

NIP has maintained sufficient controls over who has access to the platform and the reporting systems and under which circumstances changes and updates can be performed. The controls in place include:

- Limited access to platform and reconciliation processes
- Segregation of duties among report generation, reconciliation, and payment approval

Appears reasonable.

File Completeness and Timeliness

NIP provides complete files, including completed call records for payphone originated calls, and are responsible for the completeness, accuracy, and timeliness of the call record files. The controls in place to provide such files are:

- Payphone logic that is standardized and verified
- Easily tracked sorting and filtering parameters
- Verification field in the reports
- Monthly reports generated on the 3rd and transferred on the 5th of the subsequent month

Payment Authorization

NIP reviews and authorizes BCI to make payments to PSPs and aggregators from the summary payment documents submitted and validated with the LEC. Proper approval is controlled by Toni Van Burkleo, CFO.

Completeness of Records Processed

NIP validates the summary payment reports received from the reconciliation process at BCI by creating a reconciliation report by month to ensure that all calls sent were processed. This ensures that the quarterly reports provided by BCI that summarize the number of records received and the results of the processing of those records, including the payments made on their behalf, are reconciled to the total number of records submitted. Appears reasonable.

Dispute Resolution

The FCC requires that a standardized process be in place to settle disputes that is data reliant. NIP allows BCI to handle all disputes between the LEC and PSP with regard to ANI ownership, and to provide whatever detail support may be necessary to validate any particular claim against a CDR or its DAC status. Appears reasonable.

Payment Rate

All NIP customers use the default rate with their PSPs. Therefore, there are no exceptions. For in-house procedures, the carriers were charging a slight margin on each compensable call, but these charges have been eliminated with the adoption of the BCI outsourced reconciliation and payment process. Internal controls relating to rate verification include validating on BCI's summary report that all calls are included at the $.24 per eligible call rate.

Fraudulent Call ID

While BCI has a standard threshold for investigating fraud, which appears reasonable, we note that NIP can influence this threshold if necessary by placing a call or an email to do so. Only specific personnel can do so. All ANIs where fraud is suspect are pulled out for

further investigation by BCI personnel, and information necessary to corroborate the calling rates can be provided. Appears reasonable.

Contingency Procedures

Because the quarter under review was the first one using the BCI reconciliation and payment process, and only one of NIP's nine carriers was using it, the remainder of the carriers continued to bill DAC to NIP. Of course, the procedure in use at BCI, which reconciles PSP and LEC information, cannot be supported by the NIP's in-house procedures, and as such, the contingency procedure for reconciliation would be to locate a third party to perform the reconciliation that could accept the PSP invoices. Appears reasonable.

Section 2: Significant Control Objectives

The principal objectives of the system of internal controls pertaining to recordkeeping, reporting, and payment verification are as follows:

- Policies and procedures are in place to ensure payment rates conform to FCC rules, either by default or as agreed to between parties.
- Policies and procedures are in place relating to reporting elements as required in the DAC Service Agreement
- Data is stored for a period at least as long as required by FCC rules
- Procedures are in place to establish, corroborate and validate proper PSP ownership
- System reporting for all eligible calls is both accurate and complete
- Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to NIP's system requirements.
- Specific BCI personnel have been identified for verifying compensation to PSPs
- Specific BCI personnel have been identified for handling dispute resolution with PSPs
- Quarterly reports verified for payphone call counts, PSP identities, numbers called, and infodigits.
- Procedures are in place to identify and investigate potentially fraudulent calls and are resolved.
- Polices and procedures are in place to properly compensate all compensable calls originated from validated payphone ANIs. In addition, such reports are maintained for the period required by the FCC.
- Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.

Description of Controls and Tests Performed

Our test of the effectiveness of the policies, procedures, and controls included tests we considered necessary to evaluate whether those controls, and the extent of the compliance with them, is sufficient to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period between April 1, 2004 and June 30, 2004. Our tests of the operational effectiveness of controls were designed to cover the period from April 1 2004 through June 30, 2004.

Test procedures performed in connection with determining the operational effectiveness of controls are described as follows:

1. Corroborative inquiry – Made inquires of appropriate personnel and corroborated responses with other personnel to ascertain the compliance of controls.

2. Observation – Observed application of specific controls.

3. Inspection of evidentiary material –Inspected documents and reports indicating the performance of the systems and controls.

4. Transaction testing – Used reports to recreate and document controls.

Key Control Objectives

Key Control Objective #1

Payment rates can either be based on a rate negotiated between the user and the PSP or the FCC default rate.

Tests Performed

1) BCI calculates NIP's DAC obligations based on the rates negotiated with the SBR, or where applicable, the rates included in FCC Order 96-128. Per discussion with Gary Ford, there are no agreements for alternative rates with PSPs, since all PSP interaction prior to BCI was handled through the carriers. All rates at this point are the FCC default rate, which is currently $.24 per compensable call.

   We reviewed the DAC service summary report, noting that the calls paid for the quarter processed by BCI were at the default rate of $.24. Appears reasonable.

2) For the remainder of the carriers, we reviewed the June reconciliations NIP performed against the LEC invoices, noting that discrepancies were based on number of calls, but that every carrier is paid a minimum of .24 per compensable call. We found no exceptions. Excess payments exist where the carrier charges to invoice NIP and process payment to PSPs. Appears reasonable.

Key Control Objective #2

Policies and procedures are in place relating to reporting elements as required in the DAC Service Agreement

Policy or Procedure

Per discussion with Peggy Gaitan, Billing Manager for BCI, reports are prepared on a quarterly basis for use by LECs, SBRs, and PSPs detailing the calls that originate by owner, the rate paid on each of those calls, carrier IDs, and information regarding the validity of the claim presented. Additional reports may be constructed for any party including ANI Master Lists, potentially fraudulent calls, dispute items, and other, as deemed necessary by any party.

Tests Performed

1) We reviewed the reports that were provided by BCI, noting that they were reconciled against internal reports by Gary Ford, Carrier Billing Manager.

2) For the category "unmatched records", we noted that the detail for these calls was provide for accrual and investigation purposes.

Key Objective #3

Data is stored for a period at lest as long as required by FCC rules.

Policy or Procedure

Through interviews with key personnel, we noted that all records are kept on CDs at the bank, and information related to CDRs is maintained live on the system for 13 months. Per Nichole Janner, data integrity on these CDs has been recently tested as a result of a court subpoena. Backup data will be regularly tested by restoring it to an Informix database on an off-line archive server as a result of this audit.

Key Objective #4

Procedures are in place to establish proper PSP ownership

Policy or Procedure

Since NIP does not deal with the PSP directly, it relies on the controls at BCI and the LEC to validate PSP ownership. To validate PSP ownership of the ANI being claimed by any specific PSP, the LEC is required to provide to BCI a list of all ANIs for which the LEC provided dial-tone service during the quarter. In this way, every claim for compensation should be verified by LEC information validating the owner and the ANI.

Test Performed

We reviewed the Internal Control report of BCI and noted that their auditors have tested PSP ownership validation, and concur with the steps taken to verify such. Appears reasonable.

Key Objective #5

System reporting for all eligible calls is both accurate and complete

Policy or Procedure

See above for detail description of payphone flag platform validation. In summary, the platform generates call detail records with payphone flags and infodigits, and any call with a payphone flag is picked up in a summary report run from the Informix reporting database and processed to BCI, or validated against LEC invoices. These summaries are sent to BCI or reconciled in house, and payphone reports are validated and or created before wire funds are transferred in payment.

Tests Performed

1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at BCI to gain an understanding of the process and the internal control environment. Appears reasonable.

2) We reviewed the payphone logic and determined that the field parameters are sound.

3) We statistically sampled calls from the original CDR for those dates to the payphone reports generated for BCI, noting that the entire sample of payphone flagged calls tested appear on the BCI report.

4) We recreated the reconciliation of the BCI payment report to the NIP monthly reconciliation report, without exception.

Key Objective #6

Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to NIP's payphone compensation process.

Specific personnel has been identified for verifying compensation to PSPs.

Specific Personnel has been identified for handling dispute resolution with BCI.

Policy or Procedure

NIP has substantially segregated and assigned responsibility for drafting and maintaining necessary business requirements, like platform program logic, report preparation and formatting, validation of payment to PSPs and validation of reporting to various parties within the NIP organization.

Tests Performed

We interviewed various personnel to understand their roles in the DAC process, noting:

1) That Nichole as Director of Platform Services, is responsible for all the validity of the initial CDRs

2) That Josh Owings, programmer, runs the report in Informix that is ultimately the basis for the formatted report that is submitted to BCI

3) That Gary Ford, Carrier Billing Manager, verifies through the platform's reporting system that the call record count that is sent to BCI for payment validation is consistent with the payphone call count for CDRs that were originally processed through the platform.

4) That Toni Van Burkleo authorizes the wire transfer to enable PSP payment after review of the report sent by BCI

5) That Gary Ford is responsible for dispute resolution with carriers, generating CDRs and reports that are used in dispute resolution, most often to validate the claims of incomplete calls, which indicate a non-compensable call.

Appears reasonable.

Key Objective #7

Quarterly reports are verified for payphone call counts, PSP identities, numbers called, and infodigits.

Policy or Procedure

The detailed process narrative for BCI explains the procedures for generating these reports in greater detail. NIP does ensure that BCI has monthly files of CDRs with

payphone flags, ANIs, numbers called and infodigits so that originated calls with eligible DAC can be determined and validated ANIs, non-validated ANIs, potentially fraudulent calls and calls with ownership issues can be identified.

Tests Performed

We reviewed the reconciliation report run from the platform's reporting system and compared it to the summary payment report generated by BCI without exception.

Key Control Objective #8

Procedures are in place to identify and investigate potentially fraudulent calls and are resolved.

Policy or Procedure

The introduction of BCI is an improvement to the identification and investigation of fraudulent calls. A report is run by BCI on each ANI to determine if the call volume exceeds the threshold of 720 calls per month. For all ANIs that exceed this limit, a fraud report is prepared that is submitted to NIP, the PSP and the LEC which includes the ANI, PSP and call count.

Tests Performed

We inquired of personnel whether any fraudulent usage had yet been identified. The answer was no, thus, this is an unverified procedure. However, we note that BCI's auditors had successfully tested a fraudulent report and validated that such report had been sent back to the customer. Appears reasonable.

Key Control Objective #9

Polices and procedures are in place to properly compensate all compensable calls originated from validated payphone ANIs. In addition, such reports are maintained for the period required by the FCC.

Policy or Procedure

See the narrative on DAC reconciliation and payment process above for greater detail. In summary, CDRs from the platform are sorted for payphone flags, these records are summarized in the appropriate format for BCI, who validates, reconciles and pays PSPs based on the intersection of information provided from the platform, the LEC and the PSP. A summary report of valid and invalid claims is sent to NIP each quarter, which validates the report before wiring funds to BCI for payment to the PSP.

For carriers still under in-house reconciliation, invoices are sent from the LEC to NIP, who reconciles the number of calls and pays the carrier a small premium for interceding

between the SBR and the PSPs. The LEC then pays the PSP based on an ANI database that is kept in-house.

All data is stored on CD at the bank, and 13 months are stored live on the system. Per discussion with key personnel, this data will be taken out and restored to an active, but not live, server to test control totals and ensure that the call records remain unchanged.

Tests Performed

1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at BCI to gain an understanding of the process and the internal control environment. Appears reasonable.

2) We statistically sampled calls from the original CDR for those dates to the payphone reports generated for BCI, noting that the entire sample of payphone flagged calls tested appears on the BCI report.

3) We recreated the reconciliation of the BCI payment report to the NIP monthly reconciliation report, without exception.

Key Control Objective #10

Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.

Policy or Procedure

NIP has established policies and procedures regarding system changes, including specific policies regarding:

System change approval
Identification of responsible persons
System security controls
Program security controls
Capabilities to test changes and compare to known results

Tests Performed

We interviewed key personnel and reviewed the logic associated with generating payphone flags, as well as re-origination flags and completed calls. We reviewed documentation with regard to the above and noted that it was consistent with stated policy. Appears reasonable.